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09MALABO27 EQUATORIAL GUINEA RAW, PAPER 4: THE BUSINESS OF CORRUPTION

(U//FOUO)

09MALABO27 (Embassy Malabo)
UNCLAS SECTION 01 OF 05 MALABO 000027

03-12-2009 06:40 AM EDT

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KHARTOUM FOR FERNANDEZ; HARARE FOR CHILSHOLM; YAOUNDE FOR DATT

E.O. 12958: N/A
TAGS: PREL ECIN ECON EFIN PGOV EPET ENRG KCOR PINR
SOCI EK
SUBJECT: EQUATORIAL GUINEA RAW, PAPER 4: THE BUSINESS OF CORRUPTION

REF: MALABO 26 AND PREVIOUS

1. (U) Triggered by changes underway in Washington D.C., upcoming personnel rotations in Embassy Malabo and animated by the recent attack on the capital, this is the fourth in a series of cables intended to update our perspective on Equatorial Guinea, and to provide a ground-level view of one of the world's most-isolated and least-understood countries to interested readers.

2. (SBU) SUMMARY: The low level of institutional development and peculiar financial management mechanisms may inflate perceptions of corruption in Equatorial Guinea (EG). Suddenly rich, the country's over-reliance on now-defunct Riggs bank, a lack of conflict-of-interest rules and a legacy of moonlighting further complicate EG's record. While significant concerns over the level of corruption remain, and as growing oil revenues fuel the local commercial boom, there are signs EG is moving toward improving public finance management -- and U.S. engagement is helping achieve results. End SUMMARY

3. (SBU) As in many other areas, Equatorial Guinea (EG) has a bad reputation when it comes to transparency and corruption. Numerous IOs/NGOs rate the country as one of the world's worst performers. However, these organizations may be working from a position of bias and with poor information. To our knowledge, none of them have undertaken recent on-the-ground surveys here. On the contrary, there are signs the perspective of the problem in EG may not be in complete alignment with reality. Moreover, assessments rarely take into full account the country's level of societal and institutional development.

4. (SBU) Legacy Issues: Part of the problem is the peculiar nature of the EG social environment. According to the former EG treasurer, who retired in 1993 just before the oil revenues started to flow, lack of resources in its early days often led the government to compensate officials with in-kind transfers. Land, operating licenses and import concessions were common forms of "payment" to ministers and other ranking officials during a period when "there was often no money to pay salaries." The practice began with EG government seizure of "abandoned" Spanish colonial holdings -- and their subsequent redistribution to officials as a means of compensation. As testament to the then prevailing level of abject poverty, former U.S. Ambassador to EG Chester Norris (1989-1992) relates having to personally

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loan money to President Obiang himself so he could "buy gasoline to go to local political events." During the period of the "skinny cows," officials were only expected to be in the office three days a week. The remainder of the time they worked their farms or businesses in order to feed their families. During that period -- when local markets sold onions by the quarter, tomato paste by the spoonful, and the handful of taxis in circulation in Malabo required advance booking for use -- many Equato-Guineans energetically sought to avoid poorly-compensated government jobs. Some could not, especially those close to the president. Having himself come to power in a coup (one likely supported by outside forces) and constantly under threat of overthrow, he purchased loyalty by any means available.

5. (SBU) Those private entrepreneurs who mocked their poor public officials now see the tables turned. Once oil money started to flow in the mid '90s, many officials found themselves in improved positions. Money and power accumulated within the government. In addition, the once-meager returns from the earlier in-kind compensation for officials mushroomed as the economy expanded at one of the world's fastest rates. For one example, the single license to import cement into country has become extremely lucrative (NOTE: this license belongs to ABAYAK, a company partially owned by the president and first lady). In another, the only person authorized to provide notary services in Malabo is now one of the country's wealthiest men. These legacy privileges have been closely guarded by those receiving them, but demands from the younger generation and growing appreciation for competition is leading to gradual opening. The outgoing, but-still-powerful Minister of National Security once had the only modern hotel in Malabo. He built it on land that was part of his "skinny cow" compensation package, situated along the 4-lane airport highway that was until 2000 a single, muddy track. His now-aging hotel faces stiff

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competition from newer, more upscale arrivals: a French-owned "5-star" Sofitel, a Lebanese-run EG government complex, and (soon) a 300-bed Lebanese-owned Hilton Hotel near the Malabo airport. Forced to innovate, the former minister has just opened Malabo's first European-style bakery and associated ice-cream shop on his premises. Competition works.

6. (SBU) Legal Corruption: Representatives of a foreign, internationally-recognized law firm working closely with U.S. oil companies in EG for years tell us they are aware of rumors, have seen fully exploited "grey areas" but have never encountered a "smoking gun of outright corruption." They describe EG's anti-corruption statutes as "even more stringent than the (U.S.) Foreign Corrupt Practices Act." In practice, officials caught in the act are more often quietly removed from office and/or banished to some hinterlands task as penance than they are prosecuted. We know of not a single court case.

7. (SBU) Moreover, one major flaw remains: EG has no law limiting or even defining conflict of interest. Most ministers continue to moonlight and conduct businesses that often conflate their public and private interests. The Minister of Justice has his own private law firm, in which he maintains an active hand and open interest -- and which is not illegal under current EG law. In similar fashion, the Minister of Transportation and Communications is director of the board and owns shares in the parastatal airline, not to mention the national telephone company. The custom of simultaneously maintaining both official and private activities that became entrenched in the era of

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skinny cows has not been altered for the fat ones. There is public grumbling but little internal pressure to change the rules. Nonetheless, occasionally lines do get crossed. We understand the former Minister of Fishing and Environment lost his job when it was discovered he was occasionally going to Spain to sign over fishing licenses out of view of the rest of the government. There were also rumors that corruption led to the former Prime Minister's ouster (i.e., Ricardo Manque). High officials appear to be insulated from prosecution, but apparently can't expect impunity.

8. (SBU) Family Matters: EG has an extremely tight, intricately interconnected society (REFTEL). There are no arms-length transactions here. The traditions of the predominant Fang tribe prevail, and the bonds of family are as strong as they are in any other culture. By American standards, these bonds are exceedingly powerful. Ministers themselves fall victim to these traditions and appear unable to avoid pressures to intercede in mundane matters on behalf of even lower-class family members. Failure to do so can result in loss of influence and ostracization within the family and clan. During a meeting with the powerful Minister of Interior in which he was interrupted by a telephone call, we were surprised to hear him engage in translation and explanation of a routine administrative document for an elderly aunt. "She doesn't read well and she speaks poor Spanish," he apologized. "These family matters must be attended to here." The tug of family and the opportunity for abuse of power are clear.

9. (SBU) Among those close to the president, two individuals are singled out for criticism both here and abroad -- the first lady, and her son, the "primogeniture" of President Obiang, "Teodorin" (or "little Theodor") as the son is known, lives the life of an international playboy and is widely accused of corruption. His purchase of a \$34 million mansion in Malibu, California once made Forbes magazine and attracted a great deal of attention. Yet when we probe him on the issue of corruption, he explains that during the time of the "skinny cows," the government "granted" him a concession to lumber a large tract of pristine continental jungle. The company he formed (and which he still owns, even though he is currently Minister of Agriculture and Forestry), brought in a Malaysian contractor with 40 teams of well-equipped lumberjacks who clear-cut, transported and shipped a wealth of whole logs to Asian markets -- leaving Teodorin with a large windfall. It also ruffled enough feathers that a new law was introduced that prohibited the exportation of whole logs and limiting clear-cutting. In the meantime, Teodorin continued entrepreneurial activities that often included purchase of foreign real estate. "I've been very

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lucky in business," he told us, "and I like to live well. My house in Malibu is now worth twice what I paid for it."

10. (SBU) The origins of his mother's initial grubstake were based in real estate, and by any measure she has since become a formidable local real estate baron. As the oil business took off, anyone with residential properties that supplied the basics (i.e., running water, electricity) saw demand for their properties soar. Earlier than most, the first lady identified and built into EG's sizzling real estate boom, where 100% return on investments in western-style construction can come within a single year of completion. Of course, it doesn't hurt with marketing if you are the first lady, and land for construction may be easier to come by than for some others. The president

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himself acknowledges his "private interests in Equatorial Guinea," which include support for his wife's real estate ventures. Once, in a new, stately presidential palace suite, waving a hand, he told us, "This doesn't belong to me. It belongs to the people. But I have to take care of my family, so I maintain private interests on the side."

11. (SBU) Anecdotal Indicators: Given the poor level of institutional development, the absence of appropriate law and the whiplash EG has experienced in going from poverty to riches in such a short period (a decade ago EG was among the very poorest countries in the world -- it now has one of the highest per capita incomes of any population), it is appropriate to focus on the issue of corruption. Yet apart from the obvious conflicts of interest, the rumors and accusations, there are some positive signs. Most EG government revenue is generated by exploitation of the country's growing oil and gas reserves. All production is currently led by U.S. oil companies extremely sensitive to the requirements of the U.S. Foreign Corrupt Practices Act. Thus we have a reasonable level of confidence regarding the accounting up to the point that royalty payments enter EG accounts.

12. (SBU) In this area too, there are positive signs. EG is a member of the 6-nation Central African Franc monetary union. In the past decade, and in competition with much larger countries such as Cameroon, Gabon, and Congo, EG's reserves in the associated Central African Bank went from a rounding error to over 60% of the sum total. While leaks are likely, a system hemorrhaging money to corruption is unlikely to have amassed reserves at such a rapid rate. A recent visitor from the secretariat of the Extractive Industries Transparency Initiative (EITI -- for which EG is voluntarily a candidate country) was "pleasantly surprised" to find EG's accounts to be in such good order.

13. (SBU) Riggs Rigged: The 2005 collapse of venerable Riggs Bank in Washington D.C. continues to hang over EG like a cloud. At the time of the Senate/OCC investigations, EG was discovered to have the largest cumulative balance in the bank. Yet study of the record shows the bank itself to have been at fault with regard to its reporting responsibilities, while the accounts associated with EG can be reasonably explained. Based on our conversations here, Equatoguineans readily accepted Riggs' advice regarding accounts and accounting -- assuming the bank was "acting properly." As the increasing flow of dollar-denominated oil revenues built up, and attractive interest income streams ensued (which was not always the case with EG funds held in the BEAC -- the Central African central bank), individuals associated with the EG government began to open private accounts. Both the amounts in the government accounts and those in individual accounts are easily in line with amounts generated respectively by oil revenues and private activities of those concerned. Recognizing the crippling human capacity challenges in the country and the need for western (particularly U.S.) education, the EG government even worked with the bank to set up accounts for two separate scholarship funds, which the bank (poorly) administered. EG leaders were "surprised" to learn U.S. government investigators took a dim view of this arrangement.

14. (SBU) As a country, EG has poor level of appreciation for international best practices in accounting. From the EG perspective, the country relied on Riggs for good advice, which

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it did not receive. EG continues to struggle with very meager institutional development in the area of public finance and financial management. One element scrutinized by U.S. investigators of the Riggs affair was the peculiar signatory authority utilized on EG accounts. Long after closure of its Riggs accounts, President Obiang is still proud to say he is paymaster for the EG government. He continues to personally maintain control of the checkbook, "because I've learned I can't trust anyone else." Countersigned checks are his way of ensuring money goes where intended. He has been attacked by some for exerting this level of control; but given what we know about the current low level of institutional development and lack of capacity, it may be more prudent than immediately apparent. There are very large numbers of public projects underway and the president is famous for making surprise personal appearances to spot-check for progress, conformity and quality. The tactic is reported to keep contractors on their toes. Nevertheless, it is in these downstream, public expenditures that we lose visibility and in which the greatest opportunities for corruption persist. Rumors abound of influence buying, bid rigging and kickbacks. Without developed institutional oversight and internal controls, one person can't supervise everything, but woes beset those who are caught in the act.

15. (SBU) Progress: There are two bright spots and a promising glimmer regarding improvement in EG's management of public finances, all of which have significant USG angles. One is the unique "Social Development Fund" (SDF) whereby EG ministries are learning to manage project development, planning and execution in ways that are consistent with international best practices. SDF is fully funded by the EG government, and involves direct payment to USAID for 3 years and about \$15 million worth of technical assistance to establish mechanisms and procedures for social projects that range from health to education. An overarching goal is to set in motion institutional development leading to a government-wide system that meets international standards. After fits and starts, the Fund has moved into the execution phase of initial round of projects, with dozens more in development and new ministries coming onboard.

16. (SBU) Another promising sign is EG's determination to become a member of the Extractive Industries Transparency Initiative (EITI), an international effort supported by former British PM Tony Blair and Transparency International's Peter Eigen. Encouraged by the embassy, EG has mounted a serious, voluntary effort to obtain candidate status and move toward full membership. In another demonstration of the capacity challenges confronting the country, the key stumbling block is not accounting and transparency so much as a very low level of development of the country's nascent civil society -- a key "watch-dog" component of the EITI process. With a 200 million euro project underway, the EU is engaged in helping civil society grow to fill this gap.

17. (SBU) Finally, we have been told by the Minister of Finance that EG will pursue a request for USG assistance (specifically Treasury Department official technical assistance) in professionalizing his ministry, and which the government of EG will partially or fully fund. His letter making this request has been drafted and is "awaiting the council of ministers approval," expected soon.

18. (SBU) Conclusion: While we make no claim of having undertaken an exhaustive study of corruption in EG, we find local nuance and "ground truth" to be at odds with

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often-exaggerated claims made by the international press and even by NGO's that focus on this issue set. Flush with oil money, the value of corrupt actions is probably growing. However, anecdotal evidence suggests the incidence of corruption is declining. Businessmen describe EG as a "good place to work, but a hard place to do business." I.e., while it is relatively safe and secure, many of the actors who populate the country are working the angles for their own personal and family benefit. The FCPA and resulting performance of U.S. oil companies has helped secure a reputation for Americans of being honest and straight, which helps keep the worst of the crooks at bay. Other international players may have less integrity. The good

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reputation we enjoy attracts EG leaders who want to see the business and legal environment improve. Here too, additional U.S. assistance can help, as the results above show.
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